



NEXT GENERATION  
BUSINESS  
STRATEGIES  
FOR THE BASE OF  
THE PYRAMID

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NEW APPROACHES FOR  
BUILDING MUTUAL VALUE

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TED LONDON

STUART L. HART

**Praise for**  
*Next Generation Business Strategies for the  
Base of the Pyramid*

“Ted London’s and Stuart Hart’s insightful book explores with a fresh lens the challenges facing the economies and communities of the BoP, and offers long-term solutions based on joint value-creation rather than “fortune-seeking.” Today’s businesses must engage with these communities on a deeper level, to ensure equal understanding of the culture’s needs, how to educate BoP business owners, and to uncover ways to move forward—with sustainability as a top priority. This book makes an invaluable contribution to that end.”

—**Fisk Johnson**, CEO, S.C. Johnson

“Around the world, IFC’s clients are doing business in innovative ways that create market opportunity, provide goods and services, and improve the living standards of people at the Base of the Pyramid. Our clients and all those seeking to do business with the BoP as consumers as well as suppliers will find insights and inspiration in this book. This book is a milestone in the movement to create inclusive business models to target billions of people for the first time.”

—**Lars H. Thunell**, Executive Vice President and CEO,  
International Finance Corporation

“An excellent book on how to develop new markets with the Base of the Pyramid, and also enhance the private sector’s contribution to solving some of the world’s most pressing challenges. At CEMEX, we’ve put more than a decade into our low-income housing Program, Patrimonio Hoy, as part of a larger effort to promote access to housing and basic infrastructure. London and Hart provide crucial insights to both businesses and sustainable development of the 21st century.”

—**Lorenzo H. Zambrano**, Chairman and CEO,  
CEMEX

“This book demonstrates that the most socially useful business models to serve the base of the pyramid are those which are created for the market they seek to serve, incorporating appropriate green technologies and innovation-oriented strategies in venture development. Such ventures can go on to achieve the higher purpose of BoP businesses: poverty alleviation.”

—**Ratan Tata**, CEO, Tata Industries

“Anyone interested in the challenges and opportunities faced by the low-income people must read this well-researched book. At a time when intellectual discourse on this important topic is urgently needed, London’s and Hart’s book combines a wealth of experience in the corporate setting with a deep understanding of economics. Needless to say, we are in the midst of multiple global crises threatening the well-being of all. This book is an attempt to give capitalism new strategies for responding to those crises.”

—**Muhammad Yunus**, Head of Grameen

“This book describes powerful, exciting, and inspirational next-generation business models that are sure to not only improve millions of lives in the years ahead, but also could truly transform the world by unleashing the potential of those people who have been overlooked by society. Through examples like these, the private sector will learn how to grow their businesses by engaging with the Base of the Pyramid as customers, suppliers, and entrepreneurs. These ideas, pioneered by C.K. Prahalad and the authors of this book, are some of the most original in international economics and development of the past decade, and at the Inter-American Development Bank, our Opportunities for the Majority initiative is carrying forward these approaches in Latin America and the Caribbean.”

—**Luis Alberto Moreno**, President of the Inter-American Development Bank

“More than a decade ago, C.K. Prahalad and others first opened our eyes to the huge opportunities inherent in Base of the Pyramid markets. This book captures the thinking of the last 10 years, and confirms that those opportunities are greater than ever. As such, it is a fitting tribute to Prahalad and his fellow pioneers—and an essential read for anyone wishing to understand and capitalize upon the real potential of BoP marketplaces.”

—**Paul Polman**, Chief Executive, Unilever

“This book offers a new roadmap to guide the thoughts of those who navigate between the formal and informal economies. This is a must-read for anyone wanting to innovate in the Base of the Pyramid field. Above all, this book is about the relationship of two co-existing societies and the broader idea that poverty is not just about lack of financial resources and that business is not just about business, but a way to achieve a more inclusive world.”

—**Paulo Mindlin**, Director for the Walmart Brazil Institute

“A crucial and most creative re-framing of the BoP debate: The authors look at the world’s poor not just as four billion more consumers, but also as a source of talented entrepreneurs—potential business partners ready to enter the formal economy to put their assets to work and lift themselves, and their countries, out of poverty.”

—**Hernando de Soto**, Institute for Liberty and Democracy

“The Base of the Pyramid is a big breakthrough idea that risked being captured as the new conventional wisdom. This clever book by scholars and practitioners averts that by taking the deeply original insight to the next stage. A fitting tribute to C.K. Prahalad.”

—**Lord Mark Malloch-Brown**, Former Administrator,  
United Nations Development Programme

“Initially, Base of the Pyramid work focused on discovering new market opportunities among the world’s poor. This book builds on this earlier work, but shifts attention towards the process of creating these markets—and the implications of this creation process for both the poor and for organizations looking to work with the poor. The result is an internally consistent approach to poverty alleviation that not only promises to revolutionize this work, but also to transform the individuals and firms doing it.”

—**Jay B. Barney**, Professor and Chase Chair of Strategic Management,  
The Ohio State University

“This book has the power to influence the nature of business strategies to serve markets that have been ignored by traditional business. A collection of original writings from thinkers, strategists, and practitioners provides business leaders with guidance on how to venture into new-found markets.”

—**Tarun Das**, Former Director General,  
Confederation of Indian Industry

“This honest and provocative book on new ways to understand and work with the Base of the Pyramid (BoP) is timely today, and will be an essential resource for years to come. Editors London and Hart, along with their accomplished co-authors, are the ideal scholars and practitioners to have undertaken this ambitious subject, bringing relevant theory to bear on real-world challenges. The BoP has become a laboratory for management innovation like no other in the world. As a result, the powerful ideas to be found in this book not only can increase the BoP entrepreneur’s chances for success, but can also help “top of the pyramid” enterprises—for-profit and nonprofit alike—achieve their goals.”

—**Michael Hopkins**, Editor of *Sloan Management Review*

“*Next Generation Business Strategies for the Base of the Pyramid* is a welcome addition to the BoP literature. My team and I have been very honored to work with Professor Stuart Hart—who is the leading thinker of the BoP-based “Green Leap” strategy—and his colleagues. With their help and support, we’ve been able to establish the first Center for Green Leap Research in the world. In this book, Ted London, Stuart Hart, and their co-authors capture key BoP insights and provide valuable strategies for sustainable development.”

—**Professor Yunhuan Tong**, Director, Center for Green Leap Research,  
Tsinghua University, China

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Next Generation Business  
Strategies for the  
Base of the Pyramid

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Next Generation Business  
Strategies for the  
Base of the Pyramid

*New Approaches for  
Building Mutual Value*

Ted London  
Stuart L. Hart



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*To my amazing mother, Elizabeth; part of you is in this book.  
And to my wonderful wife, Danielle;  
thanks for all your support and encouragement.*

*—T.L.*

*To my wonderful family, Patricia, Jaren, and Jane,  
for enabling and encouraging my pursuit of this work.*

*—S.H.*

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## **Introduction Creating a Fortune with the Base of the Pyramid .....1**

*Ted London, William Davidson Institute & Ross  
School of Business, University of Michigan;  
and Stuart Hart, Johnson School of Management,  
Cornell University*

The introduction, by co-editors Ted London and Stuart Hart, conveys the core message of the book: that the next generation of BoP business strategies won't be about "finding a fortune at the base of the pyramid," but rather, about "creating a fortune *with* the base of the pyramid." The shift from "fortune-finding" to "fortune-creating" has implications for how BoP ventures are organized, and how their strategies are conceived and implemented. Co-editors London and Hart introduce the three core sections of the book—Roadmaps for Success, Strategic Opportunities, and Effective Implementation—and explain how the contents of each can help venture leaders approach the challenges and opportunities of BoP markets.

## Part One: Roadmaps for Success

### Chapter 1     **Building Better Ventures with the Base of the Pyramid: A Roadmap . . . . .19**

*Ted London, William Davidson Institute & Ross  
School of Business, University of Michigan*

Ted London’s chapter addresses how venture leaders can maximize the chances that their business development efforts in BoP markets will succeed. Which business practices should guide your efforts—and which ones should you be sure to avoid—as your venture moves through the stages of designing, piloting, and scaling? How do you craft initial business models, effectively test these approaches, and create sustainable competitive advantage? Using the perspective of “creating a fortune with the base of the pyramid,” London provides a set of guiding principles (a “roadmap”) that answer these and other critical questions relevant to both existing and start-up BoP ventures.

### Chapter 2     **Innovation for the BoP: The Patient Capital Approach . . . . .45**

*Robert Kennedy, William Davidson Institute & Ross  
School of Business, University of Michigan; and  
Jacqueline Novogratz, Founder and CEO,  
Acumen Fund*

Co-authors Robert Kennedy and Jacqueline Novogratz explain how social entrepreneurs and “philanthrocapitalists” are changing the BoP landscape by connecting innovative business approaches to “patient capital”—money that is expected to generate returns over a longer period than is typical of (say) venture capital. They identify four types of innovation that are proving critically important to success in operating in BoP markets, and show how a range of enterprises are applying these approaches in the field.

## Part Two: Strategic Opportunities

### Chapter 3 Taking the Green Leap to the Base of the Pyramid . . . . .79

*Stuart Hart, Johnson School of Management,  
Cornell University*

Can the BoP teach the “ToP” (the “top of the pyramid”) anything? Author Stuart Hart says “yes.” In the old BoP model, Western entrepreneurs sought to sell goods and services to the BoP with little regard to environmental consequences. Today, Hart argues, the next generation of entrepreneurs are trying to develop distributed, small-scale, “small-footprint” products and services that are more appropriate to the BoP context—and may well point the way toward better models for the ToP, as well.

### Chapter 4 Needs, Needs, Everywhere, But Not a BoP Market to Tap . . . . .103

*Erik Simanis, Center for Sustainable Global Enterprise, Johnson School of Management,  
Cornell University*

Market creation, argues author Erik Simanis, is fundamentally different from market entry. And although the BoP is a “basket of compelling needs,” it is not yet a “market” in the traditional sense of that term. As a result, entrepreneurs in the BoP context have to think in terms of market creation—and understand how to achieve that end in a uniquely challenging context. The wise venturer in the BoP space, Simanis writes, learns how to frame the value proposition and manage the innovation process (through seeding, base-building, and growth and consolidation) in ways that align business strategy with BoP opportunity. Through a sustained case study involving a soy-protein product, Simanis illustrates how to stay on track while building markets with the BoP.

## Part Three: Effective Implementation

### Chapter 5      A Micro-Level Approach to Understanding BoP Markets . . . . .129

*Madhu Viswanathan, University of Illinois,  
Urbana-Champaign*

“The devil is in the details,” as the old saying goes. In this chapter, Madhu Viswanathan makes the case that BoP markets have to be understood at the ground level—from the bottom up—if a venture is to succeed in those marketplaces. What are the marketplace-relevant characteristics of poverty? In the one-to-one interactional marketplaces of the BoP, the boundaries between “human” and “economic” issues tend to get blurred, long-term relationships tend to trump short-term ones, “rich networks” make up for resource constraints, and consumption and entrepreneurship can be two sides of the same coin. BoP entrepreneurs, therefore, have to concretize, localize, and “socialize” their products and services.

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*Patrick Whitney, Institute of Design, Illinois  
Institute of Technology*

By enabling breakthrough products, issues of design have come to the fore in the industrialized world, which is leaving behind economies of scale for economies of choice. Contrasting the Apple iPhone with the Chotukool refrigerator, author Patrick Whitney explores the provocative question of whether strategic design techniques that have proven themselves at the top of the economic pyramid might also prove useful—in identical or modified forms—when applied to base of the pyramid markets. His answer is “yes”—albeit with some important caveats.

**Chapter 7      BoP Venture Formation for Scale . . . . .193**

*Allen Hammond, Ashoka*

Social enterprises do good works. But unless they achieve a significant scale, they aren't in a position to serve millions of BoP customers, or to help reshape economies. Author Allen Hammond argues for a combination of both bottom-up and top-down enterprise formation to better reach and serve BoP markets, and explains how that productive mix can be accomplished. Additionally, he suggests, BoP entrepreneurs can build business ecosystems (rather than stand-alone ventures) to support scale. Hammond explains how "hybrid" organizations can serve that purpose—and provides insights from a real-world example.

**Conclusion      A Continuing Journey . . . . .217**

*Ted London, William Davidson Institute & Ross School of Business, University of Michigan; and Stuart Hart, Johnson School of Management, Cornell University*

Co-editors Ted London and Stuart Hart look at "the journey ahead"—both in terms of the future of BoP-oriented ventures, and in terms of the research that needs to be done to help advance our understanding of the field, which ultimately will help those BoP-oriented ventures succeed. They present—and begin the debate about—five core assumptions that underpin the BoP domain, which collectively help set the BoP agenda of tomorrow.

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# Acknowledgments

This book would not have been possible without the support and guidance of many people. While it is not feasible to name them all, we did want to recognize some key contributors.

First, we would like to thank our co-authors in this endeavor. We believe each chapter in this volume offers unique and important insights in its own right. We are delighted that these thought leaders were willing to share their latest ideas in this book. As we went through the editing process, we pushed each of them very hard to enhance and sharpen their ideas. This meant that each chapter (including our own!) faced continued requests for further clarification and more nuanced discussions. At times, we wondered if we were pushing too hard—and yet, our collaborators always accepted this feedback with the utmost grace and professionalism.

Jeff Cruikshank was a key contributor to this book. He worked closely with all the authors and was the glue that linked the chapters together. Jeff helped us find a common voice and worked with us to ensure that all the pieces fit together. Heather Esper, our colleague at the William Davidson Institute, played a key role in organizing the authors' convening and the conference we hosted in 2009, as well as keeping track of the various pieces of this manuscript. She also provided valuable contributions to the intellectual development of the book and is an emerging thought leader in her own right. Prabhu Kandachar was a valued contributor in the early stages of this journey. He participated in the convening of authors and our conference and played an important role in the shaping of the book's overall design.

We are also indebted to the attendees of our 2009 Conference, *Creating a Shared Roadmap: Collaboratively Advancing the Base of the Pyramid Community*. We much appreciate the time and energy those participants invested in coming to this event and sharing their expertise. We have done our best to capture both their feedback and their key insights.

Thanks go to Bob Kennedy and the William Davidson Institute for supporting this project from its inception and providing us with the initial resources to pursue this adventure. We also want to thank the Cornell Center for Sustainable Global Enterprise for co-sponsoring the 2009 BoP Conference and providing additional support to the effort.

We also would like to recognize Jeanne Glasser, our executive editor at FT Press. Jeanne supported us from the very earliest stages when the project was only an emerging idea. Throughout the process, she has continued to offer advice and encouragement.

Finally, we want to recognize and thank our late colleague, C.K. Prahalad, whose tragic passing occurred before the completion of this book. We appreciated C.K.'s active involvement in and support of this project from its very inception.

**Ted London and Stuart Hart**

*July 2010*

*Ann Arbor, Michigan*

# About the Authors

**Ted London, co-editor**, is a Senior Research Fellow at the William Davidson Institute (WDI) and a member of the faculty at the University of Michigan's Ross School of Business. At WDI, he directs the Base of the Pyramid Initiative, a program that champions innovative ways of thinking about more inclusive forms of capitalism. At the Ross School, he lectures on the opportunities and challenges inherent in developing new business models to serve BoP markets. An internationally recognized expert on the intersection of business strategy and poverty alleviation, London focuses his research on designing enterprise strategies and poverty-alleviation approaches for low-income markets, developing capabilities for new market entry, building cross-sector collaborations, and assessing the poverty-reduction outcomes of business ventures. His numerous articles, chapters, reports, and cases emphasize creating new knowledge with actionable implications. His article, "Making Better Investments at the Base of the Pyramid," (*Harvard Business Review*, 2009), for example, offers a pioneering perspective on listening to the voices of the world's poor to enhance mutual value creation. Over the past two decades, London has also directed and advised dozens of leadership teams in the corporate, non-profit, and development sectors on designing and implementing market-based strategies in low-income markets. Prior to his arrival at the University of Michigan, London served on the faculty at the University of North Carolina, where he also received his Ph.D. in strategic management. Before that, he held senior management positions in the private, non-profit, and development sectors in Africa, Asia, and the U.S.

**Stuart L. Hart, co-editor**, is the Samuel C. Johnson Chair in Sustainable Global Enterprise and Professor of Management at Cornell University's Johnson School of Management. He also serves as Distinguished Fellow at the William Davidson Institute (University of Michigan) and is Founder and President of Enterprise for a Sustainable World. Hart is one of the world's top authorities on the implications of environment and poverty for business strategy. He has

published more than 70 papers and authored or edited seven books with over 5,000 Google Scholar citations in all. His article “Beyond Greening: Strategies for a Sustainable World” won the McKinsey Award for Best Article in the *Harvard Business Review* for 1997 and helped launch the movement for corporate sustainability. With C.K. Prahalad, Hart also wrote the path-breaking 2002 article “The Fortune at the Bottom of the Pyramid,” which provided the first articulation of how business could profitably serve the needs of the four billion poor in the developing world. His best-selling book, *Capitalism at the Crossroads*, published in 2005, was selected by Cambridge University as one of the top 50 books on sustainability of all time; the third edition of the book was published in 2010.

**Allen Hammond** is Senior Entrepreneur and a member of the Leadership Group at Ashoka, where he is applying novel solutions to rural healthcare in emerging markets. Toward that same end, he is also serving as co-founder and chairman of a start-up company, Healthpoint Services, which is deploying eHealthPoint clinics in rural India and, soon, in other countries. Prior to joining Ashoka, he was VP for Innovation at the World Resources Institute. Hammond is also a serial social entrepreneur, serving as principal in five prior ventures in publishing and rural Internet access. He is an expert in market-based solutions to poverty, a global leader in base of the pyramid (BoP) business strategies, and a widely published author in the scientific, policy research, international development, and business literature, with 10 books and more than 150 articles to his credit—including, “Serving the Poor, Profitably” (with C.K. Prahalad, *Harvard Business Review*, 2002), and “The Next 4 Billion: Market Size and Business Strategy for the Base of the Pyramid (World Resources Institute and International Finance Corporation, 2007). He holds degrees from Stanford and Harvard universities in engineering and applied mathematics.

**Robert Kennedy** is the Tom Lantos Professor of Business Administration at Michigan’s Ross School of Business and serves as Executive Director of the William Davidson Institute—a leading think tank that focuses on business and policy issues in emerging economies. Kennedy’s research explores international business and strategy topics. He is a well-known scholar, speaker, and educator, and has authored more than 125 articles, chapters, notes, case studies, and

computer exercises on emerging market issues. Between 2002 and 2010, his teaching materials were used at every one of *BusinessWeek's* top 25 U.S. business schools. His most recent work is a managerial book on offshoring, *The Services Shift: Seizing the Ultimate Offshore Opportunity* (FT Press, 2009). Prior to becoming an academic, Kennedy worked as a consultant in more than 20 countries and as a venture capital investor in central Europe and South Asia. Drawing on both his academic and business backgrounds, he has worked with more than a dozen Fortune 500 companies and many smaller firms to design and deliver customized executive education programs. He received his M.S.M. from the Sloan School (1988) and his Ph.D. in Business Economics from Harvard (1995).

**Jacqueline Novogratz** is the founder and CEO of Acumen Fund, a non-profit venture fund that uses “patient capital” to solve the problems of global poverty. Under her leadership, Acumen Fund has invested almost \$50 million in more than 40 companies serving millions of low-income customers in the developing world. She is the author of the best-selling memoir *The Blue Sweater: Bridging the Gap Between Rich and Poor in an Interconnected World*, recently released in paperback by Rodale. The book chronicles her personal quest to understand poverty and challenges readers to grant dignity to the poor and to rethink their engagement with the world. She began her career in international banking at Chase Manhattan Bank and founded Duterimbere, a micro-finance institution in Rwanda. Prior to creating Acumen, Novogratz founded and directed The Philanthropy Workshop and The Next Generation Leadership program at the Rockefeller Foundation. She has received Ernst & Young's Entrepreneur of the Year Award (2008), the CASE Leadership in Social Entrepreneurship Award (2009), and AWPY's Changing the Game Award (2009). She was recently named to *Foreign Policy's* list of Top 100 Global Thinkers and *Daily Beast's* 25 People of the Decade. Novogratz received her MBA from Stanford.

**Erik Simanis** is Managing Director of Market Creation Strategies at the Center for Sustainable Global Enterprise at Cornell University's Johnson School of Management. His applied research focuses on advancing innovation and business development strategies for commercializing new product categories. Simanis has led or consulted to new business ventures in India, Africa, Mexico, former Soviet Union,

and the U.S., and has held management positions in the wood products and transportation industries. His most recent work has been published in the *Wall Street Journal*, *MIT Sloan Management Review*, and the journal *Innovations*. Simanis holds a Ph.D. in Management from Cornell, an MBA from the University of North Carolina at Chapel Hill where he received the Norman Block Award for highest academic achievement, and a BA magna cum laude from Wake Forest University.

**Madhu Viswanathan** is Professor of Business Administration at the University of Illinois, Urbana-Champaign. His research programs concentrate on two areas: measurement and research methodology, and literacy, poverty, and subsistence marketplace behaviors. His published works include *Measurement Error and Research Design* (Sage, 2005) and *Enabling Consumer and Entrepreneurial Literacy in Subsistence Marketplaces* (Springer, 2008, in alliance with UNESCO). He directs the Subsistence Marketplaces Initiative and has created unique synergies between research, teaching, and social initiatives. He has organized conferences in the area of subsistence marketplaces, bringing together researchers and practitioners to advance nascent research in this area. He designs and teaches courses on research methods and on subsistence and sustainability, including a yearlong, interdisciplinary graduate-level program on sustainable product and market development for subsistence marketplaces. He also founded and directs the *Marketplace Literacy Project*, a non-profit organization, which—after many years of successful operation in India—is currently being scaled, and drawing up plans to expand to other countries and contexts. He has received several awards, including the Bharat Gaurav (India Pride) Award from the India International Friendship Society in Delhi, India in 2010, given to people of Indian origin around the world for outstanding leadership in their fields.

**Patrick Whitney** is the Dean of the Institute of Design, Illinois Institute of Technology, and is the Steelcase/Robert C. Pew Professor of Design. Whitney has published and lectured throughout the world about ways of making technological innovations more humane, the link between design and business strategy, and methods of designing interactive communications and products. He writes about new frameworks of design that respond to three transformations: linking

insights about user experience to business strategy, the shift from mass-production to flexible production, and the shift from national markets to markets that are both global and “markets of one.” *BusinessWeek* has profiled Whitney as a “design visionary” for bringing together design and business. *Forbes* named him as one of six members of the “E-Gang” for his work in human-centered design. *Fast Company* identified him as a “master of design” for linking the creation of user value and economic value, and *Global Entrepreneur* named him one of the 25 people worldwide doing the most to bring new ideas to business in China. He is the principal investigator of several research projects at the Institute of Design, including Global Companies in Local Markets, Design for the Base of the Pyramid, and Schools in the Digital Age.

# Dedication



*Coimbatore Krishnarao (C.K.) Prahalad*  
*1941-2010*

C.K. Prahalad was a visionary, colleague, and friend. Over the years, he provided inspiration and guidance to all the co-authors of this book. C.K.'s tragic passing in April 2010 left us stunned and saddened. We will certainly miss him for the person he was, and for the future contributions he surely would have made to our community.

C.K. was an integral part of the development of this book. In fact, when Ted and Stu initially developed the idea of a co-created book and shared this with our colleagues, C.K. was the first to respond: *"Looks like a great idea. Count me in. Let us do something creative."* He then played an instrumental role when the book's authors convened in Ann Arbor, Michigan in May 2009. He not only presented the ideas for his proposed chapter, but he also offered a compelling vision for the book. He encouraged us to envision a book that would *be on the shelf of every manager in the corporate, non-profit, and development sectors who is thinking about BoP ventures*. That vision became a core foundation in the development of this work.

Ultimately, C.K.'s declining health prevented him from completing his chapter. Still, we wanted his voice to be part of this book. What you will read below is an unpublished summary note he wrote in 2006



in response to some pointed criticisms of his pioneering book, *The Fortune at the Bottom of the Pyramid*.<sup>1</sup> We selected this piece—which C.K. had posted on the Web—because we think it offers the essence of what made him such a brilliant and influential thinker.<sup>2</sup> He had an exceptional ability to identify and amplify weak signals. C.K. did not necessarily always aim for scientific precision. Instead, he strove to influence by demonstrating “dimensionality and directionality.”

C.K. was uniquely creative. One of his gifts was to enable people, especially entrepreneurs and business people, to reframe how they looked at current reality. For example, his ground-breaking perspectives on strategy—including the notions of “strategic intent” and “competing for the future”—helped to fundamentally reshape how business leaders viewed that domain, and also provided some of the core premises associated with the base of the pyramid business concept. He taught us to look at things, whenever possible, through the “other end of the telescope.” He also taught us to always look for the unintended consequences of any action—the “toxic side-effects,” as he liked to call them.

C.K. was also brilliant at asking the right questions. Rather than debating whether globalization was good or bad for the poor, for instance, he preferred to focus on a more practical challenge: how globalization could be made to work better for the poor. Leveraging his unique perspective and ability to reframe the questions we ask, scholars and practitioners could launch both new research agendas and implement proactive practical actions. He taught us to respect criticism and contrary opinions; he also taught that it is far more rewarding (and challenging) to search for creative solutions to difficult and seemingly intractable problems.

In the piece that follows, C.K. demonstrates these qualities. He identifies where he and his critics might see certain issues and core assumptions differently, presents his way of thinking, and offers insight into the questions he thinks we should be asking. We have edited this piece ever so slightly. Our goal was to present C.K.’s response in a way that avoided references to any specific individuals. We have also provided updated citations and reference information. We have not changed the content of his text, nor its relatively warm

and informal tone. You are in the room with him as he thinks out loud, and his brilliance and generosity shine through.

As C.K. explains at the beginning of this piece, he is responding to three critiques of *The Fortune at the Bottom of the Pyramid*:

- The measurement problem
- The distinction between consumption and income generation in poverty alleviation
- The fallacy of an opportunity at the bottom of the pyramid

We feel that his views on these important questions could not provide a better backdrop for this book, which we sadly but enthusiastically dedicate to his memory.

*Ted London*

*Jacqueline Novogratz*

*Stuart Hart*

*Erik Simanis*

*Al Hammond*

*Madhu Viswanathan*

*Robert Kennedy*

*Patrick Whitney*

# The Big Picture

*C.K. Prahalad, University of Michigan*

My thesis is simple. Over 80 percent of the people in the world are ignored as a market by the organized sector (including multinational corporations and large domestic companies). This was and is the “underserved and the unserved market.” This population does not typically have access to world-class products or services or to regional and global markets for their effort and production. Awareness, access, affordability and availability continue to be the problems. Yes, I look at both consumption and production. The ITC and EID Parry examples are about production. So is the microfinance example. Creation of transparent markets and a market-based ecosystem is also an integral part of the argument. There is a whole chapter on *transaction governance*, or creating transparent conditions for markets to flourish (Chapter 5). So is a *market-based ecosystem*, including SMEs, single entrepreneurs, NGOs and cooperatives, not just MNCs (Chapter 4). I also talk about how to create products and services for the BoP market to be profitable (Chapter 2). Further, most of the case examples are about personal and family productivity: ITC and EID Parry, Cemex, health (Annapurna, Soap, Voxiva). This totality represents the argument on poverty alleviation: I wonder why some chose to focus on one aspect of the argument—consumption. Yet, examples of production and income generation, such as ITC—that are offered by others as an alternative—are in the book. So is the need to create transparent markets. So is the need for new business models and creativity.

The focus of the book is on 5 billion underserved. They are also poor. But it is naïve to believe that 5 billion represent a monolith (are one segment). Every experiment described in the book does not necessarily have to serve all the segments of the 5 billion underserved. No single business model can do that. My goal was to amplify weak signals and experiments that have potential in this general space. Annapurna and the soap examples are about the difficulty of educating the poor on health benefits as well as how arduous it is to work with multilaterals. Do firms fail in their experiments? Yes, they do.

### ***Data Inconsistencies***

I realize the problems of defining poverty using income and even expenditure assessments. Is there a wide variation in the way the “underserved” is described? Yes. Less than \$2,000 per capita, \$2/day per person are used in the argument. Do 4 billion live below \$ 2/day? I and others are very aware of the problems of measurement of the underserved and the poor. The World Resources Institute (WRI) conducted a large-scale effort, with the International Finance Corporation (IFC), to reassess the data from various sources and to arrive at the structure of the pyramid, by country.<sup>3</sup> It is likely to be the most current, and they have used household survey data. It came out in 2006. It shows yet a different view. Let me give you a preview.<sup>4</sup> The data are as follows:

More than \$21,730 PPP per capita	0.5 billion
\$3,260–\$21,730 PPP per capita	2.0 billion
Less than \$3,260 PPP per capita (\$458)	4.0 billion

The WRI/IFC study confirms that 4.0 billion are below \$2/day.

Add to this the underground economy and the remittances from overseas. (India received \$21 billion-plus in remittances from overseas last year. Mexico received \$18 billion.) The complexity of the problem defies precise measurement. (I am glad that as a result of my drawing attention to this “forgotten population,” more people have started to devote their attention to understand this space better.) One way to escape this malaise of measurement is to shape this world differently rather than study, in greater depth, its income characteristics. We know that there is a large population out there—be it 4 or 5 billion underserved. (The size of this market does not depend on its income characteristics alone, but how we can create the capacity to consume. More of this later). *Shaping the world requires a point of view, and some evidence to show that this is possible.* The book is about a point of view. I have tried to apply only one set of tests in my work: Does it change the conversation? Does it show the opportunity? Does it lead to some action?

I respect precision. But to define the poverty line as \$1.08 or \$1.48 is pseudo precision. So is the ability to compute precisely the total number within those income boundaries. In my work I was

looking for *dimensionality and directionality*. My goal was never to measure poverty; much less with great precision. There are others who do this well. My goal is to look for an alternative to the tried and tested methods, including government subsidies and public sector schemes, to remedy this situation.

The broad dimensions of the problem and the opportunity to make a difference are about changing the quality of life of 4 to 5 billion people who are underserved and (most of them) below the radar screen of the organized sector. If it is only 3.5 billion, so be it. It is still a large number, and worthy of our attention.

### **Consumption—Income—Production**

I am surprised that some fall into this trap. Consumption can and does increase income.

Can Casas Bahia (and such other examples of consumption) alleviate poverty? I find this a very interesting argument. Let us start with four propositions:

- a. The poor live in high-cost micro-economic systems (see Prahalad and Hammond, *Harvard Business Review*, 2002).<sup>5</sup>
- b. They do not have access to good quality products and services (be it water, food, furniture, or credit).
- c. They are prisoners of local monopolies, including local money-lenders.
- d. They have no recourse to law. The local landlords can and do enforce their will on the local population.

Is the ability of someone at the BoP with volatile wages to get access to credit (at 20 percent rather than 300 percent) improving income? Is a family of four having a small refrigerator and eating better food improving the quality of life? Is someone becoming independent (one blind person means two people without wages—one who cannot see and one who needs to take care of that person)? Is releasing at least one person to do work—even at minimum wages—improving the earning potential of the family? Is helping poor people to avoid diarrhea, helping the family to save on needless costs associated with healthcare, much less, needless death? Is this income? Is

this improving the quality of life? Is avoiding mental retardation, at an incremental cost, adding to income? The idea of a “poverty penalty” is real. See the report from Brookings Institution.<sup>6</sup> In the USA, poor families pay more for everything—food, autos, finance; reducing the poverty penalty is adding to real income.

Poverty alleviation is, simply, improving the disposable income for the families—by reducing the costs of services, improving its quality, and releasing their time to do work that is productive.

I also find some dismiss somewhat easily the cell phone revolution. Can you believe in 2009 that more than 50 percent of the cell phones will be sold to the poor in emerging markets, including such desperately poor markets as in sub-Saharan Africa (CelTel) or in South Africa (MTN, Vodacom)? Needless to say in India and China. (All cell phone makers are MNCs, and the new ones from China are also becoming MNCs). Of course they had to invent new business models, from Grameen Phone to “prepaid cards.” I am continually humbled by the inventiveness of people who want to serve this population.

Lesson: Creating the capacity to consume is different from serving an existing market. Creating the capacity to consume can increase disposable income (no different from income generation). Creating the capacity to consume can build new and profitable markets at the BoP.

There are many ways to do this:

- a. Single serve (Is aspirin OK if shampoo is bad)
- b. Monthly payments (Is kitchen cabinet OK if TV is bad)
- c. Pay per use (is cell phone OK if videogames are bad)
- d. New distribution models (is ITC e-Sagar OK if Shakti Ammas are bad)
- e. Low prices (is a water filter OK if iodized salt is bad)

There is another way that consumption leads to income generation. For example, Grameen Phone has 250,000 phone ladies—all entrepreneurs. There are over 100,000 telephone booth operators in Africa, and the number is growing. [Telecom operator] Bharti [Airtel] estimates that it will need about 500,000 individual entrepreneurs to

sell “prepaid cards and charge cell phones” for cell phone users in India alone.

I know that some think “Fair and Lovely” is a bad idea.<sup>7</sup> This is an ideological stance. I believe in choice. I believe that the “poor” must have choice. Some may believe that the “rich and the elite can decide what is good for the poor, because they cannot decide for themselves.” (Fair and Lovely does have moisturizer and sun block.) I know some do not approve of single cigarette sales; how about beedis, which is more affordable and more deadly?<sup>8</sup> Should a consumer have choice between beedis and cigarettes?

We can also argue that this population does not need PCs. Should AMD, Nicholas Negroponte, and Intel stop all their efforts to create an affordable PC?<sup>9</sup> Should we fix the drainage in Dharavi before we give them access to global connectivity? I just want to show how ideology gets so intertwined with our approaches. I am explicit about my preferences. So should others. State your position with respect to “who decides for the poor.” I emphasized the consumer side because, as I stated clearly in the book, “We should commence talking about underserved consumers and markets. **The process must start with respect for the Bottom of the Pyramid consumers as individuals...Consumers and consumer communities will demand and get choice...we must recognize that the conversion of the BoP into a market is essentially a developmental activity...New and creative approaches are needed to convert poverty into an opportunity for all concerned. That is the challenge.**”<sup>10</sup>

### *Is There a Real Market?*

Time will tell whether BoP is a market or not. I believe that it is. So do a lot of others (maybe foolishly). ICICI just enhanced the role of rural marketing. They believe that the total market for credit in rural India is Rs. 15,000 billion (now mostly done by moneylenders, at 100 percent, maybe). The banks have just scratched the surface with Rs. 40 billion. Even if the organized sector only got to Rs. 10,000 billion and reduced the interest rate from 100 percent to 20 percent, you can calculate the income generated for the poor. Consumption of credit, even to buy a TV, can create income. Obviously, ICICI expects to make a profit. This is one of their two corporate initiatives—global

and rural!! ITC thinks it can make money. P&G, HLL, Nestle all think so.

### ***The World Is Moving Forward***

I believe that the world has moved on. The Inter-American Development Bank (focused on Latin America) just adopted the Bottom of the Pyramid as their focus. They call it the “opportunity for the majority.”<sup>11</sup> Academy of Management calls it “business for the benefit of all.”<sup>12</sup> For the last year I have been talking about “democratizing commerce.” So the debate is not anymore about how many are really poor; it is about how to bring the benefits of global standards at affordable prices and increase access.

Hope this helps.

## **Notes**

- <sup>1</sup> C.K. Prahalad (2005). *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits*. Upper Saddle River, NJ: Wharton School Publishing.
- <sup>2</sup> The material for this foreword was posted by C.K. Prahalad on the NextBillion.net web site on August 31, 2006.
- <sup>3</sup> Allen L. Hammond, William J. Kramer, Robert S. Katz, Julia T. Tran, & Courtland Walker (2007). “The Next Four Billion: Market Size and Business Strategy at the Base of the Pyramid.” Washington, DC: World Resources Institute and International Finance Corporation.
- <sup>4</sup> The numbers in the final report are slightly different from what is noted here. The authors of the report used \$3,000 PPP per capita in 2002 U.S. dollars (or \$3,260 PPP per capital when adjusted 2005 U.S. dollars) as the threshold for defining the BoP segment, which totaled four billion people.
- <sup>5</sup> C. K. Prahalad & Allen L. Hammond (2002). “Serving the world’s poor, profitably.” *Harvard Business Review*, 80(9): 48-57.
- <sup>6</sup> Matt Fellowes (2006). From “Poverty, Opportunity: Putting the Market to Work for Lower Income Families.” Washington, DC: The Brookings Institute.
- <sup>7</sup> Fair & Lovely is a skin-whitening cream sold by Unilever in more than 30 countries worldwide.
- <sup>8</sup> A beedis is a loosely wrapped cigarette popular in South Asia.
- <sup>9</sup> AMD, Nicholas Negroponte, and Intel were working together on the One Laptop Per Child (OLPC) initiative. Intel ended its involvement in the partnership in 2008. For more information, see: <http://laptop.org/en/index.shtml>.



- <sup>10</sup> *Fortune*, preface, page xiii. Emphasis in the original text.
- <sup>11</sup> For more information on the Inter-American Development Bank's Opportunity for the Majority, see: <http://www.iadb.org/topics/om/home.cfm>.
- <sup>12</sup> For more information on the Academy of Management and this initiative, see: <http://www.aonline.org/> and <http://www.bawbglobalforum.org/>.

# Foreword

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A few weeks ago, when Stuart Hart and Ted London asked me to write the foreword for this book, I must confess that I was of two minds. I am familiar with their work and have great regard for their talent and intent. But ever since *The Fortune at the Bottom of the Pyramid* was published, there has been a deluge of conferences, debates, and discussion papers on the subject of the base of the pyramid (BoP). It seemed that everything that could be discussed about the subject's theoretical underpinnings as well as about the handful of corporate examples that characterized this approach was already in the public domain. I was therefore hesitant in adding some more print to this effort.

As I read through the manuscript of this book though, I sensed a welcome change in approach. Far from merely examining opportunities to make a fortune “at” the base of the pyramid, Hart and London and their co-authors had collaborated to highlight the need to create fortunes “for” and “with” the base of the pyramid. This fresh approach was significantly aligned with our own efforts at ITC, over a decade and a half, to co-create sustainable and inclusive societies through innovative business models. A “Triple Bottom Line” approach that has enabled ITC to help create sustainable livelihoods for more than 5 million people, a corporation that is carbon positive, water positive, and waste recycling positive, and a top ranking economic value creator in the Indian economy. It is because of this compatibility between ITC's perspective and the broad ideas presented in this book that I am happy to contribute these introductory thoughts, and to support the efforts of Hart, London, and their co-authors in providing thought leadership in an area of immense importance to societies globally.

It has taken more than a century of material wealth creation to realize that the economic model pursued by the world for so many years is terribly inadequate in creating equitable and inclusive

societies. In the last 50 years alone, world GDP has multiplied 60 times. Yet, two-thirds of the world lives in poverty, with more than a billion people in acute deprivation and hunger. UNDP reports have estimated that the top 10 percent own 85 percent of household assets, while the bottom 50 percent own just 1 percent of these assets. Other estimates suggest that the top 10 percent account for 65 percent of world's consumption while the bottom 50 percent consume just 2.5 percent. This disparity is indeed a serious threat to the progress of mankind. It is also a source of social unrest across the world, creating a dangerously vulnerable society. Unstable societies make economic progress unsustainable, and we can only ignore this basic economic fact at our considerable peril.

A century of economic progress also took place with significant apathy toward the need to conserve and replenish the earth's precious natural resources and living systems. In the last half-century alone, the world lost one-fourth of its top soil, one-third of forest resources, more than one-third of global bio-diversity, and witnessed the extinction of many species. Continuing degradation of land, forest, and water resources progressively undermines precious life-support systems, leading to the phenomena that we witness today in global warming, and consequent droughts and floods. Today's inhabitants of the planet inherited a 4 billion-year-stock of natural capital. In less than a century, in the name of material progress, this natural capital has been ravaged. As a result, we have an unenviable global ecological footprint that will demand the equivalent of resources of *two* earths to support an anticipated global population of 9 billion by the mid 2030s. We cannot afford this luxury as we have only one planet—to live together, or perish together.

These threats underscore the undeniable fact that “economic development” and “sustainable development” are not necessarily the same thing. Nor is sustainable development only about creating green economies. Progress and development is also about creating sustainable *and* inclusive societies. Economic growth models must therefore sub-serve a larger need to create greater societal value, and not material wealth alone. That, in turn, requires a far larger focus on the creation of sustainable livelihoods. Given the magnitude of this task on a global scale, this is indeed a formidable challenge for economies around the world today.

The 4 billion people who constitute the base of the pyramid are, by definition, among the poorest in the world. An overwhelming majority of this population live in developing or low-income countries. Predominantly living off the land, they are also the most vulnerable to problems arising out of environmental degradation, including climate change. In the best of circumstances, they are served by inefficient and fragile market systems. At worst, they are at the mercy of exploitation by market intermediaries. Either way, they are trapped in a vicious cycle of poverty. An approach that views this disadvantaged population only as a market for low-cost, low-value products and services contributes precious little to improving their lives or their future. It only implies a “race to the bottom” to garner a small share of a deplorably small wallet. A more enduring and meaningful approach lies in co-creating new economic opportunities that empower them and build their capacity to earn meaningful livelihoods—in essence, increasing the size of their wallets, and integrating them into the economic mainstream. It is this creation of a fortune “with” and “for” the base of the pyramid that will ensure a secure and sustainable future for our planet.

The question is: Can business play a meaningful role in catalyzing this process of sustainable and inclusive development? I firmly believe that it can. Private enterprises, through their operations, have a large number of touch-points in society that constitute the front line of engagement with civil society. Their physical presence in communities around their catchments gives them an opportunity to directly engage in synergistic business activities that can create sustainable livelihoods and add to preservation of natural capital.

In the years ahead, moreover, growing civil society awareness and tougher regulations will compel businesses to adopt sustainable business practices that not only deliver unique customer value propositions, but also enable a twin impact: ensuring a positive environmental footprint and creating sustainable livelihoods. It is my deep conviction that both the competitiveness and profitability of firms in the future will increasingly depend on their relative ability to adopt such sustainable business practices. Corporations of the future will have to innovate strategies to deliver high levels of triple bottom line performance. Their capability to do so will not only define the sustainable corporations of tomorrow, but also create the foundations of a more secure society for future generations.

Our experience at ITC convinces us that it is eminently possible to create larger societal value with business innovations that foster an inclusive and sustainable future. At the heart of ITC's innovative strategies lies the creation of unique business models that synergize long-term shareholder value growth with that of enhancing societal capital. These business models are supplemented by community-based CSR projects that enhance the quality of life of people in rural India.

A much-celebrated example is that of ITC's e-Choupal, described in this book as well. Leveraging the power of Internet and digital technology, ITC's e-Choupal has today become an internationally recognized model of rural transformation, benefiting more than 4 million farmers. By providing farmers with a rich repertoire of agri-based interventions, it not only addresses the core needs of farmers in terms of infrastructure, connectivity, price discovery, and market access, but also provides a significant boost to farm productivity through customized best practices in sustainable agriculture. This has helped transform villages into vibrant economic communities by raising incomes and co-creating markets. Similarly, a strategy to source pulp from renewable plantations, in spite of the availability of cheaper imports, has led to the creation of livelihood opportunities for thousands of poor tribals and marginal farmers. An intensive R&D programme in ITC developed high-yielding, disease-resistant clonal saplings which are today grown by farmers—even on wastelands—providing a huge green cover through forests on nearly 110,000 hectares. In the process, it has created 48 million person-days of employment opportunities. These innovative business models have not only enhanced the competitiveness of the businesses, but have simultaneously created immense value for rural communities.

The deep engagement of e-Choupals with rural communities has also enabled ITC to contribute to the creation of sustainable livelihoods by building community assets. ITC's Integrated Watershed Development initiative has helped create freshwater potential covering over 54,000 hectares in water-stressed areas. In addition, the company's integrated animal husbandry services have reached out to more than 400,000 milch animals, creating avenues for non-farm based livelihoods. More than 200,000 children in rural India have

received supplementary education, and more than 20,000 women entrepreneurs have been created through approximately a thousand self-help groups. In addition, several partnerships with state governments have also been formed, to deliver quality projects of high social value through intensive public-private-people partnerships.

I firmly believe that innovation in corporate strategies and an abiding vision to serve a larger societal purpose can significantly transform the future and mitigate many of the sustainability threats discussed earlier. New entrepreneurs, as well as progressive companies, have a great opportunity today to contribute meaningfully to building a secure and sustainable future. So far, open innovation models have synergized the efforts of internal resources, supply chain participants, and even customers to co-create new products and services. To my mind, the need of the hour today is to encourage innovation in corporate strategies and business models that will enable companies to co-create, with local communities, opportunities for sustainable livelihoods, as well as enrichment of natural capital. At the same time, society—including customers, investors, and media—need to be made more aware of the tremendous change they can bring about by encouraging a preference for responsible companies. Innovations will be required to devise a rating system that can provide credible information to civil society to enable them to make an informed choice. Such innovations will spur the creation of a market for responsible and sustainable practices. It will also make sustainability a value proposition that companies will embed in their offerings to society. That will go a long way in creating a sustainable economy for future generations and a secure planet that will continue to nurture and nourish the billions of its inhabitants. I do hope that future innovation will awaken the world to such a promising tomorrow.

I want to compliment the distinguished authors of this book, once again, for collaborating to find engaging solutions that can build new hopes for the many in the base of the pyramid. I also join you in paying my tribute to the late C.K. Prahalad, who helped begin the journey. My very best wishes in this endeavor.

**Y.C. Deveshwar**

*September 2010*

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# Introduction

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## Creating a Fortune with the Base of the Pyramid

by Ted London, William Davidson Institute & Ross School of Business, University of Michigan; and Stuart L. Hart, Johnson School of Management, Cornell University

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*The introduction, by co-editors Ted London and Stuart Hart, conveys the core message of the book: that the next generation of BoP business strategies won't be about "finding a fortune at the base of the pyramid," but rather, about "creating a fortune with the base of the pyramid." The shift from "fortune-finding" to "fortune-creating" has implications for how BoP ventures are organized, and how their strategies are conceived and implemented. Co-editors London and Hart introduce the three core sections of the book—Roadmaps for Success, Strategic Opportunities, and Effective Implementation—and explain how the contents of each can help venture leaders approach the challenges and opportunities of BoP markets.*

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The way we *frame* the opportunities and challenges in front of us matters. In fact, it can be one of our most important choices. When we rely on an established framing, our ideas generally evolve in linear, incremental, and increasingly predictable ways. But when we use a new lens on an old problem, we allow creativity back into the process, and this can enable us to make major leaps forward.

Stated slightly differently, when we *reconsider* our fundamental, often taken-for-granted assumptions, we can help stimulate the emergence of new ideas and approaches. This is true in many human endeavors, and the base (bottom) of the pyramid (BoP) domain is no exception. The BoP domain comprises a broad range of business



models, developed by or in partnership with the private sector, and specifically designed to target the poorest segments of society as consumers, producers, and entrepreneurs.

And yet much of the current thinking in this domain, as well as much of the action in the field, seems tethered to a set of assumptions whose time may have passed. For many, their perspective of the BoP domain remains wed to the concept of “finding a fortune at the BoP.”

This way of thinking certainly was valuable in generating early momentum, but holding onto this view for too long has limited our collective creativity and impact. Fortunately over the past few years, aspects of a new perspective have begun to emerge, which collectively has the potential to transform the BoP opportunity space. We feel the time has come to connect these emerging ideas together in one place. Hence this book, which offers a fundamentally different starting premise for those companies, nonprofits, social entrepreneurs, and development agencies interested in developing ventures to serve the BoP.

Simply put, we contend that successful BoP business development requires a change in framing to *creating a fortune with the BoP*.

## Next-Generation BoP Strategies

Since the BoP domain’s initial articulation as “The Fortune at the Bottom of the Pyramid” over a decade ago, interest in the BoP as a market segment, business strategy, and poverty alleviation approach has gained considerable momentum.<sup>1</sup> During that time, a growing number of organizations operating in the business and development sectors launched new BoP ventures and initiatives. With many observers predicting—especially in the wake of the global financial crisis—that the developed world will suffer a prolonged period of slow growth well into the foreseeable future, more and more companies and development agencies are exploring the opportunity to develop self-sustaining—and better yet, scalable—business models to serve BoP markets.<sup>2</sup>

Most BoP business activity and associated intellectual energy, however, remains centered on the prospect of selling products to a

seemingly massive and previously ignored and underserved market.<sup>3</sup> Practice and research focus on the role of companies and nonprofit organizations in developing new distribution channels to reach low-income markets and new technological solutions to address unmet needs. This first generation of “fortune-finding” approaches could be described as *business to four billion*.

With some notable exceptions, many of these first-generation BoP ventures have yet to achieve substantial scale. A number have failed, others remain local or regional in character, and a few have been converted into philanthropic endeavors because the financial upside remained elusive.<sup>4</sup> Serving the BoP, it now seems clear, involves more than simply providing low-cost products and extended distribution reach to a hitherto untapped market—one that is passively waiting to be discovered by observant entrepreneurs and business leaders.

Over the past few years, a second generation of approaches with a markedly different orientation and value proposition has emerged. Framed more accurately as *business with four billion*, this “fortune-creating” perspective emphasizes co-creating new business models, technology solutions, and value propositions with the BoP. This more nuanced view of BoP venture strategy extends and enhances our thinking about market development, innovation, capability requirements, and cross-sector partnerships. Most recently, this work suggests that efforts to co-create BoP ventures can also provide important avenues for poverty-alleviation and green-technology agendas.<sup>5</sup> Yet this second generation of BoP business strategies still remains “hidden” from many BoP leaders in the for-profit, nonprofit, and development communities who have yet to shed the old framing.

We assembled the set of essays in this book to help accelerate the transformation in the way the BoP is viewed from a “fortune-finding” to a “fortune-creating” mentality.<sup>6</sup> Our goal is to share some of the latest thinking in this still-emerging perspective for the BoP domain. Based on the idea of creating a fortune *with* the BoP, we have made our best effort to provide useful material for existing and emerging leaders committed to developing better BoP ventures, as well as for those in development and policy-makers interested in the potential social value resulting from these enterprises.

## A Different Kind of Journey: Co-Creating a Book

With the rise of BoP business, a robust debate has developed about the business opportunity, poverty alleviation benefits, and environmental impacts associated with such activity. There is growing concern, for example, that BoP business will result in nothing more than “selling to the poor”—in other words, that it’s the latest form of corporate imperialism. Others fear that BoP business will spur consumerism among the poor, resulting in accelerating environmental destruction. Some even question whether the profit motive is compatible with sustainable development. If the BoP domain is to fulfill its grandest promise—that is, as a business and development strategy grounded in a synergistic relationship between the generation of economic returns and the solution to social and environmental problems—these issues must be taken seriously and addressed head-on.

This book thus reflects our view that the BoP domain has reached a crucial juncture. The time is ripe for critically assessing what we have learned so far, for exploring the opportunities to incorporate new thinking, and for charting a roadmap that can guide future action. With these goals in mind, we decided to bring together a group of BoP “pioneers”—thought and practice leaders who represent a variety of perspectives—to reflect on the state of the field and creatively consider the opportunities and challenges in moving the domain forward. We were delighted when Al Hammond, Bob Kennedy, Jacqueline Novogratz, Erik Simanis, Madhu Viswanathan, and Patrick Whitney agreed to join us and create chapters for this book.<sup>7</sup> C.K. Prahalad also enthusiastically accepted our invitation to participate in this endeavor. While his declining health ended up preventing him from contributing a chapter, he was nevertheless instrumental in the development of this book.<sup>8</sup>

We viewed this book as an opportunity to connect and catalyze the thinking among the authors; our goal was to co-create a book and infuse it with the latest ideas from the BoP domain. We also wanted to avoid a potential flaw found in many books with multiple contributors: a collection of interesting but often disconnected individual contributions. We believe that stimulating a *dialog among the authors and other thought-leaders*, rather than simply commissioning various experts to write specific chapters in isolation, offered the best

path to a final product that would both enrich the recommendations for field-based activities and improve the intellectual development of the domain.

How did we pursue this vision? In May 2009, the coeditors and authors of this book convened for a two-day retreat in Ann Arbor, Michigan. In this intimate setting, each author presented their preliminary thinking, followed by critique and discussion. Gradually, the contours of the book began to emerge, with each of the contributions fitting together to form a cohesive whole. The tangible outcome was a shared vision for the book and an agreed-upon path forward for each of the authors. Each author then began to develop a full draft of his or her respective chapter.

Next, in October 2009 the William Davidson Institute at the University of Michigan and Cornell's Center for Sustainable Global Enterprise hosted a conference during which the authors presented their thinking. Limited to 100 invited attendees, the conference was designed to stimulate dialog and provide a venue for frank conversations and honest feedback. We owe a great debt to those conference attendees, whose names are listed in the appendix at the end of this book. They provided us, as authors, invaluable insight into how to refine, enhance, and even reframe our ideas. They also gave us a welcome recharge of our intellectual batteries with their strong support for the value proposition of this book as well as for the concept of reframing the conversation around creating a fortune *with* the BoP. This helped us to the finish line, which is the final product you see here.

## **Reframing the Discussion and the Questions We Ask**

One of our objectives in developing this book was to move away from some of the old and, frankly, unproductive debates in the BoP domain that end up narrowing the scope of interest and constraining the opportunity for creative thinking. These debates have often centered on a “fortune-finding” perspective, focusing on important-sounding but mainly academic questions such as “Precisely how big is the BoP market?” and “Are BoP ventures good or bad for the poor?”

Both questions, of course, can be answered by “It depends,” and the interpretations vary based on the assumptions made. Answers to questions like these will remain elusive and, likely, highly context-specific. At least to the authors of this book, pursuing these lines of inquiry seems to offer limited opportunity to make a substantial contribution to this domain, or to enhance its impact.

Accordingly, we believe that much more attention should be focused on critical questions that emerge from a “fortune-creating” viewpoint. These include, “How can we create a market with the BoP?” and “How can we make BoP ventures better for the poor?” Surely, these questions are more relevant and potentially productive, given that numerous BoP ventures already exist, and their numbers will only grow in the future.

Indeed, BoP ventures are here—for better or worse. Let’s focus on how to make them better (and figure out what “better” means!). But before diving into these issues in the chapters that follow, let’s first establish some boundary conditions for what constitutes the BoP and BoP business.

## **Defining the Base of the Pyramid**

In the first seminal articles published on the BoP, the global population was divided into a pyramid containing three socioeconomic segments, with the bottom segment being labeled the “base of the pyramid” (BoP). This segmentation was developed from per capita income adjusted for purchasing power parity (PPP). PPP is a measure that equates the price of a basket of identically traded goods and services across countries, providing a standardized comparison of real prices. It provides a useful, albeit crude, measure for dividing the world’s population into different income levels.

Since then, different BoP authors have articulated different PPP lines, which has generated some confusion. These values range from \$1,500 to \$3,000 per annum and \$1 to \$4 per day per capita, which both provides a broad sense of the variation within the BoP socioeconomic segment and generates some troubling inconsistencies. In the most detailed effort to date, the World Resources Institute (WRI) and the International Finance Corporation (IFC)

conducted an in-depth study to develop a deeper understanding of the population size and aggregate purchasing power of the BoP.<sup>9</sup> These authors used \$3,000 PPP in 2002 U.S. dollars (or \$3,260 when adjusted to 2005 U.S. dollars)<sup>10</sup> as the per capita annual income threshold defining the BoP. Using data from household consumption surveys from Africa, Asia, Eastern Europe, Latin America, and the Caribbean, WRI and the IFC estimate the BoP segment as approximately 4 billion people, with total annual household income of \$5 trillion PPP (or \$1.3 trillion when adjusted for U.S. dollars).

One outcome of using PPP demarcation lines has been increased scrutiny of some of the earliest claims in the BoP literature about the size of the market opportunity.<sup>11</sup> Given that the BoP was initially framed as a business opportunity (for example, the book *The Fortune at the Bottom of the Pyramid*), these efforts at further clarification are not surprising. Unfortunately this line of inquiry, as noted, ultimately guides the conversation into an arena of diminishing returns. Therefore, we submit that PPP lines demarcating the BoP should instead be viewed as sources of empirical and illustrative convenience, rather than as a rigid definition.

Few would support the notion that an increase in an individual's annual income from \$2,999 to \$3,001 has a material impact on that person's state of poverty or whether or not they are considered part of the BoP socioeconomic demographic. Few would also support the idea that a business venture should stop serving a person if his or her income moves above some predetermined poverty line. Calculating a specific market size is therefore fraught with difficult-to-defend assumptions and questionable attempts at pseudoprecision. Indeed, the most effective BoP strategies can actually build capacity and generate income among the poor, not simply extract wealth in the form of increased consumer spending. Furthermore, as we will discuss in the following chapters, BoP markets may need to be *created*, rather than discovered, which has important implications for how one assesses potential market size.

The BoP is also not a homogeneous "mass market." In the WRI/IFC report, the BoP is segmented into \$500 PPP income increments that are shown to have markedly different characteristics across regions, countries, and industry sectors. If nothing else, this seems to confirm the relative fruitlessness of trying to precisely identify the

BoP segment simply by referencing a specific income level (and also underscores the challenge of scaling, which is addressed in subsequent chapters). Again, as in the debate over poverty lines, income is at best an imperfect indicator of a more complex phenomenon.<sup>12</sup> In the poverty-alleviation community, income is viewed as a measure of convenience and is widely recognized as an imperfect one at best. Again, a specific PPP level—while a potentially useful empirical indicator—has clear limitations as a definition for the base of the pyramid.

How else, then, can the BoP be defined? In the BoP literature, this segment is consistently defined by one characteristic: *It is the population of the world that is generally excluded from the current system of global capitalism.*<sup>13</sup> The IFC and the Asian Development Bank uses the term “inclusive business” to describe efforts to develop new ventures that will serve the BoP. Many other organizations also adopted the term inclusive business or something similar. The Inter-American Development Bank created a special program called “Opportunities for the Majority” to support ventures that focus on improving the quality of life of low-income communities that constitute the majority of the population of Latin America and the Caribbean. The United Nations Development Programme calls it “Growing Inclusive Markets.” So an alternative definition of the BoP is *the low-income socioeconomic segment that is not well-integrated into the formal economy.* This perspective aligns with the BoP literature on venture capability-building, which addresses the challenge of business development in the absence of a “Westernized” market environment that is characterized by legally recognized boundaries, enforceable contracts, and property rights protection.<sup>14</sup>

This view also links into important work from the development community. Hernando de Soto, for example, describes how the vast majority of the world’s population is excluded from the predominantly western global capitalist system.<sup>15</sup> The poor, while possessing substantial amounts of unregistered assets and entrepreneurial talent, operate in an essentially extralegal environment, in which property rights are not officially recorded, and contracts and other agreements lack legally enforceable mechanisms. In many developing countries, in fact, the informal economy—most of it perfectly legal—accounts for a substantial portion of the current economic activity. Due to the

cost, complexity, and unfamiliarity of transitioning to the formal economy, most transactions and business activities conducted by the poor are likely to remain in the informal economy, at least for the foreseeable future. This suggests that the base of the pyramid is the socio-economic segment that *primarily lives and operates their local enterprises in the informal economy and often has annual per capita income of less than \$3,000 in PPP.* (Note: This income line comes from the WRI/IFC report, which based PPP data on 2002 U.S. dollars. The Inter-American Development Bank used \$3,260 when it adjusted the same PPP per capita to 2005 U.S. dollars, which again shows the limitation of a “fixed” income line that fails to transcend time and context.)

Managers, development professionals, and academics can therefore define the BoP by a combination of income and characteristics. Income levels, however, hide heterogeneity, and characteristics such as informality can vary depending on how they are operationalized. Those seeking absolute precision could argue about this indefinitely and most likely never reach consensus. Respectfully, we and our fellow authors are less interested in this kind of elusive precision. The key point is that the BoP segment has the following characteristics:

- Is heterogeneous across multiple dimensions.
- Includes the portion of the world’s population with the least amount of income.
- Contains local enterprises that generally are not well-integrated with the formal capitalist economy.
- Lives primarily in the informal economy.
- Constitutes the majority of humanity.

## **Defining BoP Business**

BoP businesses (or ventures) are revenue-generating enterprises *that specifically target the BoP demographic described as buyers, sellers, and entrepreneurs.* They sell goods to and source products from the BoP. The two orientations can be termed “serving BoP consumer” or “serving BoP producer,” and a specific BoP venture can adopt either or both approaches. Ventures serving BoP consumers bring



nonlocal products and services to BoP communities and markets. Ventures engaging BoP producers purchase goods from local producers to sell in various nonlocal domestic or international markets.

BoP business ventures typically *straddle the formal and informal economies*. Unlike the “underground” economy at the top of the pyramid, which is driven largely by the desire to avoid paying income taxes or to conduct illegal activities, the informal sector that characterizes most BoP marketplaces exists because of the difficulty and expense of becoming legally registered due to unreasonable costs, high levels of corruption, and archaic rules. The challenge, therefore, is to bring productive assets from the informal and formal economies together in a mutually beneficial manner. BoP ventures thus seek to combine the best of both worlds—the resources and technological capacity of the formal economy and the indigenous knowledge, human face, and local embeddedness of the informal sector.<sup>16</sup>

BoP ventures *span sector and size*, including initiatives by large multinational and domestic companies, local small- and medium-scale enterprises, and businesses developed by nonprofit organizations and social entrepreneurs. These ventures also *often involve partnerships across different sectors*, including collaborations among for-profit companies, nonprofit organizations, and development agencies.<sup>17</sup> Furthermore, BoP ventures *typically cross traditional industry boundaries*. For example, at the top of the pyramid, industries such as “energy,” “health care,” and “telecommunications” make sense. When it comes to the BoP, however, given the lack of pre-existing infrastructure, ventures must often cross boundaries to be successful. A BoP health care venture, for example, may need to be premised on telemedicine and must therefore include telecommunications as an important part of its strategy. Similarly, a rural telecom venture may need to also be in the distributed energy business, given that digital power is crucial to telecommunications.

Another distinguishing feature of BoP ventures is the goal of *becoming economically self-sustaining*, meaning that at the least they expect to recover their ongoing operating costs. The objectives of most BoP ventures also include *scalability*. Economic self-sufficiency and scalability, it should be noted, do not preclude access to grants or subsidized support. Many businesses in the developed world—including those in the agriculture, energy, science, technology,

aerospace, and medical industries—receive varying levels of short- and long-term support from national and local government. As is discussed in subsequent chapters, ventures serving the BoP can achieve economic self-sufficiency and scalability by combining revenues from serving BoP consumers and producers with resources and “smart subsidies” from the development community and government agencies. Conversely, without access to these types of external support, many ventures will struggle to create markets and demonstrate economic viability.

## **An Overview of the Book**

In selecting authors for this book, we purposely chose BoP thought leaders from different backgrounds, perspectives, and experiences. Accordingly, the book is organized into three sections, reflecting the perspectives of the different authors: Part One, “Roadmaps for Success,” provides frameworks and roadmaps for assessing and improving BoP ventures’ potential for success. The two chapters in this section offer complementary analytical lenses through which to view the development of any BoP business. They also serve to provide the appropriate context for the more focused material that follows.

In Chapter 1, “Building Better Ventures with the Base of the Pyramid: A Roadmap,” Ted London presents BoP venture leaders and development practitioners with a framework, based on the perspective of “creating a fortune with the BoP,” to guide their enterprise-development efforts. In particular, he provides core principles that leadership teams should apply at each of the three stages of BoP venture development: designing, piloting, and scaling. London advocates that venture development grounded in mutual value creation offers the best prospect for generating economically-viable enterprises that also enhance the quality of life in BoP communities. He further argues that appropriately applying the core principles at each stage of development can mean the difference between success and failure. London closes his chapter by proposing a new perspective on cross-sector collaboration that can more effectively integrate business effort to build viable BoP ventures with development community investments in creating new market opportunities.

In Chapter 2, “Innovation for the BoP: The Patient Capital Approach,” Bob Kennedy and Jacqueline Novogratz describe the “markets versus development assistance” debate, making the point that neither of these traditional approaches has worked particularly well in serving the BoP. They then describe what might be termed a “virtuous convergence”: the coming together of social entrepreneurs and “philanthrocapitalists” who have invested in pools of patient capital (i.e., capital that explicitly takes the long view in calculating return on investment). The former create new solutions; the latter bet on the best of those solutions, help build organizational capabilities, and provide the funds needed to scale. Drawing on their own extensive experience with both of these groups, they identify four types of innovations that are critical to success in BoP markets and explore the on-the-ground experience of four BoP ventures.

Part Two, “Strategic Opportunities,” addresses two of the principal strategic challenges facing the BoP domain in the coming years: the BoP environmental challenge and the BoP market-creation challenge.

Stuart Hart’s Chapter 3, “Taking the Green Leap to the Base of the Pyramid,” focuses on the conscious effort on the part of BoP ventures to move beyond the early models of “finding a fortune at the BoP”—which involved adapting environmentally unsustainable products and services to sell to BoP consumers—and to move to a model in which “green” solutions derived with the BoP can serve all strata of the economic pyramid. He contrasts “Green Giant” and “Green Sprout” technologies, with the former being centralized, investment- and policy-driven approaches favored in the developed world, and the latter being distributed, small-scale, small-footprint approaches that are necessary in BoP marketplaces. The “green leap,” he argues, will emerge from a creative convergence of the green technology and BoP communities. After citing examples of the green leap in action, he proposes a portfolio of actions and initiatives to help accelerate the Green Revolution around the world.

Chapter 4, “Needs, Needs, Everywhere, But Not a BoP Market to Tap,” by Erik Simanis, opens with the surprising example of a product that seemed destined for success in the BoP space and yet failed to match expectations. He makes the case that despite the manifest *needs* in that space, there may not be pre-existing *markets*. The

BoP challenge is more accurately seen as one of market creation, rather than market entry. Market creation, in turn, depends on both framing the value proposition and defining the strategic innovation process in ways that make sense in the very particular environment of the BoP. Yes, Simanis argues—creating new BoP consumer markets is complex, expensive, risky, and time-consuming, and yet that may be where the best opportunities lie.

Part Three, “Effective Implementation,” focuses on three critical operational challenges for BoP business, with a particular focus on developing a deep understanding of the nuances of market research, product design, and venture scaling in the BoP context.

Madhu Viswanathan opens this section in Chapter 5, “A Micro-Level Approach to Understanding BoP Markets.” He intersperses theory with a “bottom-up” perspective presented by BoP consumers, producers, and entrepreneurs in their own voices. He describes and illustrates the thought processes of those who transact daily in BoP marketplaces and draws out the implications of those thought processes for BoP venture managers. He also draws out the critical coping strategies used by those who live in extremely challenging circumstances and again considers the implications for venture development. He makes the case that to a surprising degree, BoP marketplaces are dominated by ongoing relationships, rather than one-time transactions, and concludes the chapter with practical advice for designing and implementing enterprise solutions for the BoP.

Patrick Whitney’s chapter, Chapter 6, “Reframing Design for the Base of the Pyramid,” comes at the design challenge from a very different yet still complementary perspective. He argues that new design principles being adopted to create breakthrough products at the top of the economic pyramid also can be used to create successful innovations for the BoP. He notes the surprising similarities in the “reframing” design principles of the iPhone and those of the Chotukool refrigerator (designed for use by consumers in India who had never owned—or even dreamed of owning—a device that could keep produce cool and fresh for extended periods). In the case of the refrigerator-producing company, the designers spent enough time “on the ground” to imagine a scenario whereby customers might also become “partners” generating income for themselves by selling refrigerators to family and friends. Whitney argues that the “direct

design” model (whereby companies analyze markets and create new offerings) is less relevant to the BoP than “strategic design,” which allows for a radical reframing of the design process. But because developed-world companies like Apple are already well-versed in strategic design, businesses designing for the BoP should take heart, follow suit, and adapt accordingly.

The third and final chapter in this section, Chapter 7, “BoP Venture Formation for Scale,” by Allen Hammond, tackles the aforementioned issue of getting to scale. This is critical for any BoP venture that hopes to become sustainable, and for any enterprise that hopes to have a meaningful social impact (as most BoP ventures do). But scale has tended to be elusive among both corporate and *de novo* business startups, in part (Hammond suggests) because many bottom-up new ventures simply don’t plan adequately for scale. He explores in detail two alternative scaling-up strategies. One focuses on the business structure—and urges BoP ventures to plan to be both global and local (both bottom-up and top-down) at the same time, the better to source capital and technology, while also paying attention to local needs and challenges. The second focuses on activities outside the business structure, and urges BoP entrepreneurs to build a supporting ecosystem for the venture as well as the business activity itself. One particular form of such a supporting ecosystem is a hybrid model—one or more partnerships between the venture and civil society entities—that enable a diverse ecosystem and hence multiple sources of solutions. The chapter also illustrates how such strategies might be put into action with examples from a new BoP venture that Hammond and a number of collaborators have launched.

We close the book with our thoughts and reflections looking forward. Our goal in writing this book is to present the underpinnings of a new perspective for the BoP domain. We are well aware that more work needs to be done, and in our conclusion, we draw attention to important issues that need further consideration. What new problems and challenges have been identified? What areas have not been adequately tackled? What gaps remain?

The BoP domain is at a critical juncture. We hope this book offers insight into the way forward. We believe that the next generation of BoP ventures should emphasize the opportunity to create a fortune

with the BoP. The evolution of the domain, clearly, is not finished. We are on a learning journey, and these are exciting times for BoP venture leaders and their partners. We must continue to extend the boundaries of our understanding. We must not stop asking, “Where do we go from here?”

## Notes

- <sup>1</sup> A working paper by C.K. Prahalad and Stuart Hart titled “Raising the Bottom of the Pyramid” was first circulated in 1998. It took four years for it to be published as C.K. Prahalad and Stuart Hart (2002) “The fortune at the bottom of the pyramid,” *Strategy+Business*, 26:1–15.
- <sup>2</sup> This argument is made very strongly in Jeffrey Immelt, Vijay Govindarajan, and Chris Trimble (2009) “How GE is disrupting itself,” *Harvard Business Review*, October: 3–11.
- <sup>3</sup> It should be noted that some work has also been done on ventures designed to source from BoP producers. See, for example, Ted London, Ravi Anupindi, and Sateen Sheth (2009) “Creating mutual value: Lessons learned from ventures serving base of the pyramid producers,” *Journal of Business Research*, 63(6): 582–594.
- <sup>4</sup> Some of the BoP ventures that have scaled include Grameen Phone, Hindustan Lever, and ITC.
- <sup>5</sup> See Ted London (2009). “Making better investments at the base of the pyramid,” *Harvard Business Review*, 87(5): 106–113 and Stuart Hart (2010). *Capitalism at the Crossroads*. Upper Saddle River, NJ: Wharton School Publishing.
- <sup>6</sup> For more on the distinction between “discovery” and “creation,” see Sharon A. Alvarez and Jay B. Barney (2008). “Discovery and creation: Alternative theories of entrepreneurial action,” *Strategic Entrepreneurship Journal*, 1(1): 11–26 and Saras D. Sarasvathy (2001). “Causation and effectuation: Toward a theoretical shift from economic inevitability to entrepreneurial contingency,” *Academy of Management Review*, 26(2): 243–263.
- <sup>7</sup> We would also like to thank our colleague Prabhu Kandachar from Delft University of Technology for his active and valued participation during the convening and conference.
- <sup>8</sup> C.K. Prahalad passed away on April 16, 2010. C.K. was the first to accept the offer to join us on this endeavor, and his contributions helped shape this book. As such, we have dedicated this book to him.
- <sup>9</sup> Allen L. Hammond, William J. Kramer, Robert S. Katz, Julia T. Tran, and Courtland Walker (2007). *The Next Four Billion: Market Size and Business Strategy at the Base of the Pyramid*. Washington, DC: World Resources Institute and International Finance Corporation.

- <sup>10</sup> In a similar study with the Inter-American Development Bank, WRI examined the BoP in 20 countries in the Latin America and Caribbean region. This report finds that the BoP population in these countries totals 361 million and that these individuals have an aggregated annual income of \$510 billion. See World Resources Institute (2006). *The Market of the Majority: The BOP Opportunity Map of Latin America and the Caribbean*. Washington, DC: Inter-American Development Bank.
- <sup>11</sup> For a good example of this critique, see Aneel Karnani (2007). “Misfortune at the bottom of the pyramid,” *Greener Management International*, 51: 99–110.
- <sup>12</sup> For a detailed discussion of the multi-dimensional nature of poverty, see Amartya Sen (1999). *Development as Freedom*. New York: Anchor Books.
- <sup>13</sup> See Stuart Hart (2010) *Capitalism at the Crossroads*. Upper Saddle River, New Jersey: Wharton School Publishing.
- <sup>14</sup> See Ted London and Stuart Hart (2004). “Reinventing strategies for emerging markets: Beyond the transnational model,” *Journal of International Business Studies*, 35(5): 350–370.
- <sup>15</sup> See Hernando de Soto (2000). *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books.
- <sup>16</sup> Hart, *Capitalism at the Crossroads*.
- <sup>17</sup> For more information about the unique challenges of cross-sector collaborations, see Ted London and Dennis Rondinelli (2003). “Partnerships for learning: Managing tensions in nonprofit organizations’ alliances with corporations,” *Stanford Social Innovation Review*, 1(3): 28–35.

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