

Making money by fighting poverty

*Standardized frameworks can help create sustainable businesses
for the base of the pyramid in developing countries*

By Ted London and Colm Fay

The conversation about the role of business in poverty alleviation has evolved substantially over the last 15 years. Often seen as part of the problem, business is now viewed increasingly as a critical partner in solving this global challenge. In his 2005 book *The Fortune at the Bottom of the Pyramid*, C.K. Prahalad highlighted the opportunity for business to serve those at the base of the pyramid (BoP), a term used to describe the 4 billion to 5 billion people who live on less than \$3,000 a year.

These billions of people, roughly two-thirds of humanity, generally conduct their market transactions in the informal economy and are poorly served by the formal business sector. While their individual income is relatively low, the BoP in aggregate represents a sizeable market opportunity. Indeed, the World Bank's International Finance Corp. has estimated this market to be \$5 trillion and growing.

Interest from the business community in serving the BoP is changing as well. The corporate response to poverty traditionally had been to increase investments in philanthropy or social responsibility. These generous and impactful efforts weren't necessarily strategic and scalable. Today's BoP enterprise leader aims to develop a business model that is financially sustainable at scale and can help reduce poverty worldwide.

The challenge of development

Although interest and investment in BoP enterprise continues to grow, doing business in these markets presents unique challenges to leaders who draw their experiences from more developed markets. The BoP business environment is characterized by consumers and producers with low purchasing power, unpredictable cash flows and limited ability to tolerate risk. Therefore, this market segment values different functionalities in their products and services.

To meet these unique demands, products and services must be designed with the realities of the BoP in mind. Business models also must respond to market environments that have distinct and constrained institutional and physical infrastructures. This means that BoP enterprises must have the talent, resources and partnerships to build their business as well as help create the markets in which they operate.

For example, BoP enterprises seeking to reach the rural poor may need to invest or partner to develop the so-called "last-mile" distribution networks capable of transporting goods or delivering services cost-effectively to communities that lack

quality transport and trade links. The consequence is that BoP enterprises need to understand how to develop both their product or service offerings and their business models for a context unfamiliar to most Western-based business leaders.

Developing a successful BoP enterprise, however, requires more than just overcoming the challenges of product development and market creation. Successful enterprise leaders must combine their product or service offerings with the right business model to create a robust value proposition from the perspective of the BoP. Perhaps the biggest challenge facing managers experienced with developed world contexts is to understand and enhance the opportunity to create value for the BoP. These leaders must realize that alleviating poverty is a key source of value creation in this market environment. Products and services, together with their associated business models, must be culturally and contextually sensitive and appropriate and embrace the opportunity to impact poverty.

To do so effectively requires co-designing with the BoP. Enterprise value propositions designed and delivered in keeping with "business as usual" principles run the high risk of being unsuccessful at best and having negative outcomes at worst.

While many enterprises serving the BoP have been launched, not enough have achieved the promise of sustainability at scale. Small can be beautiful, but scale will attract more investment and generate more impact. Indeed, scale remains the most elusive goal for BoP enterprises.

There have been, for instance, many efforts to provide clean water, sanitation, distributed energy and access to health services. By and large these efforts have remained small and localized, rarely traveling across geographies. One important reason was that until now, enterprise leaders have faced a knowledge gap. As a community, we have yet to understand fully the lessons learned from enterprise successes and failures and to use this knowledge to develop best practices that make for a more predictable pathway to sustainability and scale.

Answering the challenge

That, however, is changing.

Previous efforts at developing a set of standardized frameworks and strategies have been stymied by an implicit assumption that each BoP enterprise has to respond in a unique way to the specific context it faces. Yet enterprises in the developed world also face distinct contexts as they operate across different geographies and sectors, targeting different consumer seg-



FIGURE 1

Business that serves

Several enterprises have deployed successful business models that serve markets at the base of the pyramid, defined as people who live on less than \$3,000 a year.

Enterprise name	Sector	Business model	Geography
<i>CEMEX (patrimonio hoy initiative)</i>	Building materials	Mexican MNC-launched initiative that provides building products, technical assistance and financing to enable improved home building.	Mexico, Central America
<i>M-Pesa</i>	Financial services	Mobile-money service that uses mobile phones as a platform to increase access to financial services, including money transfer, bill payment and microfinance.	Africa, Asia, Eastern Europe
<i>Sanergy</i>	Sanitation	Franchise model for providing hygienic and affordable toilets in urban slums with supporting waste management and treatment.	East Africa
<i>VisionSpring</i>	Health	Agent-based distribution model using female entrepreneurs who provide eye care products and services through door-to-door selling and community-based health camps.	India, Bangladesh and Central America

This has led us to develop a set of standardized tools, collectively the “Sustainability at Scale Toolkit,” that can be customized to an enterprise’s unique context. The architecture of this toolkit focuses on the following four challenges:

- Designing for success
- Planning for scale
- Managing value creation
- Developing partnerships

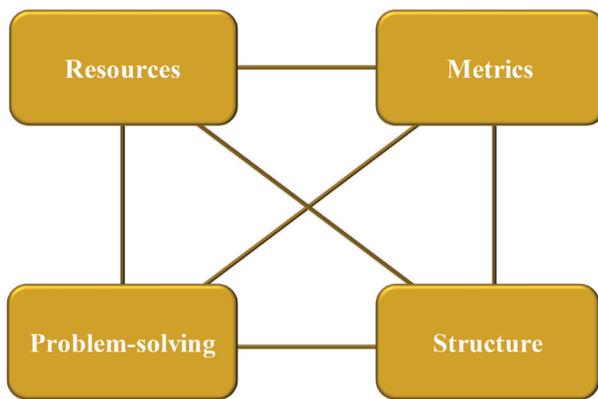
The toolkit has been developed through many years of working with BoP enterprises to understand the kinds of choices that they need to make and how to support these decisions best.

Some of these enterprises are described in Figure 1 and illustrated in this article. These tools constitute a set of guiding principles that, when adapted to an enterprise’s unique context, can help BoP business leaders avoid some classic mistakes, while providing a roadmap for their journey to scale.

FIGURE 2

The business model innovation framework

Four key factors influence the performance of business models designed to serve the 4 billion to 5 billion people who live on less than \$3,000 a year: the resources available, the structure of the enterprise, the problem-solving approaches employed and the metrics used to track progress.



Design for success

Designing business models for BoP contexts requires an explicit focus on business model research and development, which emphasizes experimentation and learning over execution. While execution is important for any business, BoP enterprises will need to innovate before they can implement.

We have developed the business model innovation framework to help BoP enterprise leaders align their internal design with a focus on business model innovation that, if properly executed, can help increase the probability of achieving sustainability at scale.

BoP business model innovation performance is influenced in particular by four key factors (shown in Figure 2): the resources available, the structure of

the enterprise, the problem-solving approaches employed and the metrics used to track progress.

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ments. That hasn’t deterred the development of standardized strategies, tools, frameworks and processes that business leaders can use to navigate the unique complexities of their environment. These frameworks, however, were designed for developed world markets, and they may not be sufficient or correct when applied in a BoP context. While BoP enterprise development is not about reinventing the principles of business – enterprises in every context need to create the right internal design, plan for scale, build a viable value proposition and seek the right partners – it is about recognizing that these principles may need to be applied in different ways.

CEMEX, a Mexican building materials multinational with net sales of more than \$14 billion, launched a new initiative focused on low-income consumers. This initiative, labeled patrimonio hoy, required the company to innovate a new business model. The target customer base and the market environment were both very different from the company’s traditional model.

The leadership team realized that it needed to consider the company’s metrics and problem-solving approaches carefully. Rather than seeking profits over the first two years, the patrimonio hoy team emphasized metrics based on experimentation

and learning. Their problem-solving approach relied heavily on building relationships and co-inventing with the BoP.

The result was a fundamentally different business model, annual revenues of more than \$45 million and offices in Mexico and four other countries.

As the CEMEX example shows, the internal design factors must align with the context within which the enterprise is operating. This is particularly important for BoP business leaders, who are not only serving low-income communities but operating in a market environment that often lacks familiar or robust institutional and physical infrastructure.

In the early stages of business model innovation, BoP enterprise leaders should understand the differences between testing the entire business model and testing specific components of the model, and they should identify which approach is most appropriate for their context and stage of development. Testing individual components may be an appropriate first step when the enterprise wants to focus learning on one or two key components, such as pricing, distribution, behavior change or awareness generation. These efforts aim to test specific hypotheses that are central to the business model.

Validating the entire business model is likely to be easier if the key components have been proven in advance. This phased approach can be challenging, especially if investors in the enterprise emphasize achieving specific social or financial metrics in the short term over developing a long-term learning orientation. Again, the key is to ensure that all the internal design components are aligned for success in BoP markets.

Plan for scale

Scaling is imperative for business success and for development impact. More than 4 billion people live on less than \$3,000 per year. The opportunities and the challenges are enormous.

As such, we need solutions that can have impact at a similar magnitude. We know that scaling is possible because we've seen some examples of it in sectors ranging from mobile telephony to agriculture.

M-PESA, for instance, is a mobile money service that uses mobile phones to facilitate convenient financial transfers between individuals, along with other types of transactions. The design of the service was based on the informal practice of mobile phone users using air time as an alternative to cash and leverages both brick-and-mortar offices and electronic transfer.

M-PESA was piloted initially in Kenya by local telecommunications operator Safaricom, with support from the British Department for International Development. Launched in 2007, there are now more than 23 million M-PESA users across 10 countries, accounting for 4.5 billion transactions annually.

As the M-Pesa example demonstrates, scale is possible. Yet too many BoP enterprises struggle to move beyond the pilot phase. Lacking a clear pathway to guide growth, these pilots have not developed the strategies or built the capabilities to

Tapping into the base

The evolution of base of the pyramid (BoP) business models should continue focusing on ways to involve more of the local population as business owners, according to a professor at the INCAE Business School, which has campuses in Nicaragua and Costa Rica.

Felipe Perez discussed how newer versions of BoP could alleviate poverty in Latin American countries in an interview with the CKGSB Knowledge blog, which is published by China's Cheung Kong Graduate School of Business.

Much theory focuses on multinational corporations, which do have the resources to promote industrial and economic growth and serve underserved markets. But the native private sector could play a more prominent role, Perez said. He noted that people in the BoP market are smart and resourceful – they have to be to live on less than \$1 a day, as many do in Latin America. This knowledge is an untapped resource.

The hope is to develop small businesses and create indigenous companies on the ground. They could supply basic goods and services. While they won't solve everything and create a modern, fully developed economy on their own, Perez said, they can fulfill basic needs and instill hope.

"They are not going to solve [all problems] but maybe show the way for people to say, 'Wow, this guy was poor like me, but now he has three trucks and has hired 10 people. If he is able to do it, I can do it,'" Perez said. "This is growing and creating some sort of development at the very bottom of the society."

achieve sustainability at scale. In response, we have developed the co-create, innovate, embed framework (see Figure 3) to help BoP enterprise leaders plan for scale from the outset.

Achieving sustainability at scale benefits from recognizing and applying specific principles at each stage of growth. At the envision stage, BoP businesses must understand how to co-create solutions with the base of the pyramid. In addition to robust, on-the-ground interactions, these enterprises must be able to recognize and leverage valuable assets in a BoP market.

In the pilot stage, BoP businesses also must understand how to orchestrate effective experiments that provide clear learning outcomes. As these businesses are operating in impoverished environments, this innovation orientation must extend to market creation as well as venture development. Furthermore, achieving scale requires creating market-appropriate competitive advantages and nurturing the capabilities needed to enter new segments and geographies efficiently and effectively with offers of additional products and services.

Competitive advantage likely will be based on relationships with, and the level of integration into, the local community and context. Building a capability in social embeddedness en-

FIGURE 3

Measuring your model's impact

The co-create, innovate, embed framework helps BoP businesses plan for scaling their enterprises at the beginning of the venture.

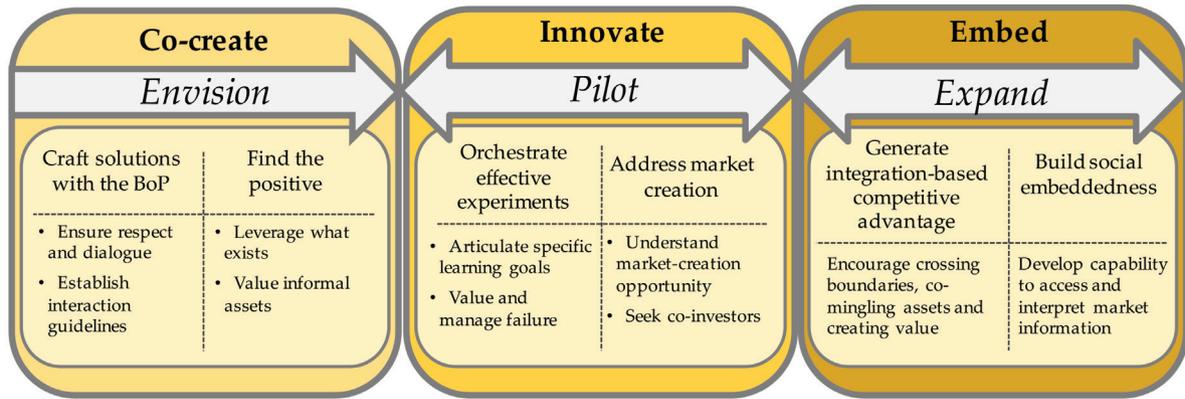
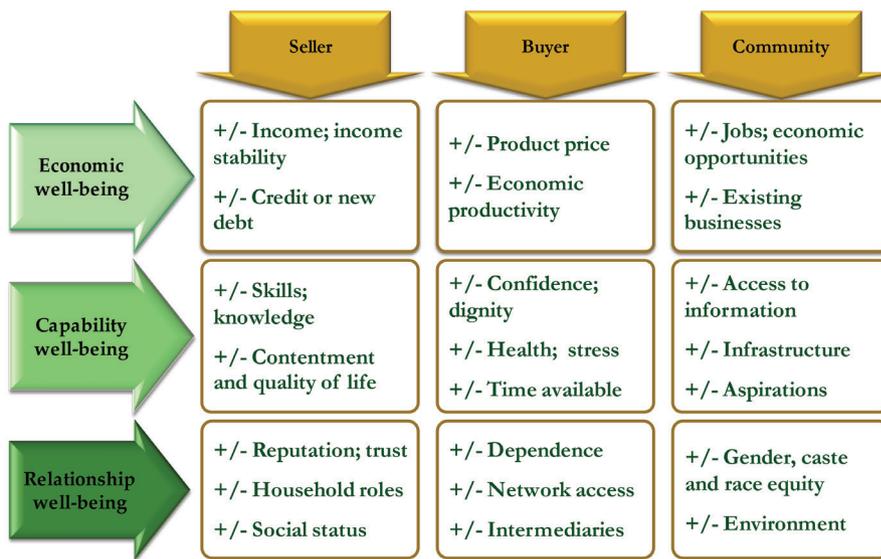


FIGURE 4

What works, and where

The impact assessment framework helps BoP businesses understand their value proposition across multiple dimensions of well-being and multiple stakeholder groups.



ables a BoP enterprise to collect, evaluate and interpret information about the market environment quickly and understand the implications for its business model. Being embedded also can provide a pathway to scale through more effective and efficient co-creation and innovation, along with building a more robust source of competitive advantage.

Manage value creation

BoP businesses that wish to build a sustainable enterprise must understand the value that they create with the base of the pyramid. We have developed the impact assessment framework, shown in Figure 4, to assess value creation across multiple di-

mensions of well-being and multiple stakeholder groups to help enterprise leaders understand the full scope of their impact.

Understanding its value proposition is an important step in any business, but it is uniquely challenging in low-income markets. Enterprises operating in this context must understand that poverty alleviation – measured by changes in multiple dimensions of well-being across multiple local stakeholders – is a key source of value creation and a critical driver of overall enterprise performance.

This means that enterprise leaders should be able to measure both the positive and negative poverty impacts

from their business model. The goal then is to enhance the positive impacts while mitigating negative ones. Enterprises that cannot understand and enhance their overall value proposition are greatly limited in their ability to build a sustainable business.

Collecting such data is not necessarily costly, complicated or time-consuming. With the right talent and resources, these data can be an important source of business intelligence that supports better decision-making and improved social and financial performance. The key is to implement a process that regularly hears the voices of the BoP and uses that information to enhance the enterprise's value creation potential.

For example, Sanergy, a social enterprise operating in Kenya,

FIGURE 5

A little help here, partner

The partnership ecosystem framework can help BoP businesses identify gaps in their portfolio to help them build a stronger partnership ecosystem.

	Enterprise development	Market creation
Action enabling	<p>Facilitate enterprise activities</p> <p>Market intelligence</p> <ul style="list-style-type: none"> ○ Cultural context, competitive landscape <p>Market access</p> <ul style="list-style-type: none"> ○ Implementation support <p>Value creation</p> <ul style="list-style-type: none"> ○ Assess poverty impacts 	<p>Facilitate market transactions</p> <p>Demand creation</p> <ul style="list-style-type: none"> ○ Awareness raising, behavior change ○ Microcredit, other sources of financing <p>Supply enhancement</p> <ul style="list-style-type: none"> ○ Advisory services ○ Improved inputs, aggregation of outputs
Capacity building	<p>Enhance enterprise resources</p> <p>Financial capital</p> <ul style="list-style-type: none"> ○ Grants, equity, debt <p>Human capital</p> <ul style="list-style-type: none"> ○ Talent development, technical assistance <p>Social capital</p> <ul style="list-style-type: none"> ○ Access to networks, legitimacy 	<p>Enhance market environment</p> <p>Value chain infrastructure</p> <ul style="list-style-type: none"> ○ Physical infrastructure <p>Legal infrastructure</p> <ul style="list-style-type: none"> ○ Policy changes <p>Institutional infrastructure</p> <ul style="list-style-type: none"> ○ Banking, legal sector enhancements

works with franchisees in urban slums to operate hygienic and affordable toilets. Sanergy's franchisees, like many entrepreneurs in BoP markets, face challenges in economic well-being. This includes limited savings and few options for accessing credit. Sanergy discovered that in addition to providing its franchisees with marketing, training and other support services – which enhanced their capability and relationship well-being – it also needed to provide access to financing to help them start their own microfranchise.

Develop partnerships

BoP enterprise leaders must find ways to integrate their business development efforts with outside investments and other support.

This means these enterprises must build an ecosystem of partnerships to facilitate operations in BoP markets, where key building blocks of a business environment may not exist in a robust form. We have developed the partnership ecosystem framework, shown in Figure 5, to enable enterprise leaders to understand their partnership needs better and develop partnership strategies that support the transition to scale.

Enterprise leaders need to understand how to navigate the landscape of potential partners, prioritize those that can contribute to success and manage this partnership ecosystem to maximize the benefits. A key is recognizing that partnership support can be defined by the focus of partner support – either investments in the enterprise or in the market environment that surrounds the enterprise – and the type of support that partners provide – either to enable activities on the ground or to build organizational and institutional capacity.

BoP enterprises can use the partnership ecosystem frame-

work to map existing partnerships and identify gaps in their current portfolio, thus providing important insights into opportunities to build a stronger partnership ecosystem.

VisionSpring, a BoP enterprise focused on eye care in Asia and Central America, developed a portfolio of partners in its efforts to grow. Partner support included access to investment capital, connections and information to facilitate market access, linkages to existing distribution networks and support in demand creation. These partnerships played an important role in VisionSpring's efforts to scale within and across countries.

Frameworks model success

Building businesses that serve BoP communities is challenging. BoP enterprises must develop innovative solutions to overcome the difficulties of serving consumers with limited resources, operating in market environments that are unfamiliar and impoverished and developing a value proposition with the BoP that is culturally and contextually appropriate.

To date, too few of these enterprises have achieved sustainability at scale. However, through standardized frameworks that can be customized to an enterprise's specific context, BoP business leaders can benefit from lessons that have been learned by the wider community. These will, at a minimum, help enterprises avoid classic mistakes, and what's more, they offer a blueprint for increasing the likelihood of enterprise success.

And if successful, these enterprises can generate profits while also alleviating poverty at a scale that matters to business and to those concerned about social impact. ♦

Ted London is vice president and senior research fellow for the Scaling Impact Initiative at the William Davidson Institute. He also is a faculty member at the Ross School of Business at the University of Michigan. He recently authored The Base of the Pyramid Promise: Building Businesses with Impact and Scale. An internationally recognized expert on the intersection of business strategy and poverty alleviation, he has published extensively with an emphasis on translating research and field-based experience into actionable strategies, frameworks and tools.

Colm Fay is the research manager for the William Davidson Institute's Scaling Impact Initiative. He has experience in impact investing, capacity building and assessment and social entrepreneurship projects in health, water and sanitation and agriculture in sub-Saharan Africa and Asia.