

Understanding inclusive value

By Wayne Visser

The next breakthrough concept in value looked at social capital from a different angle by shining a spotlight on the value that economic inclusion of low-income markets represents. This was described by strategy professors C.K. Prahalad and Stuart Hart as the opportunities at the 'bottom or base of the pyramid' (BOP).^[i] This pyramid is a visual representation of the distribution of income in world where, at the apex, 75 to 100 million people earn more than \$20,000 a year, whereas at the base, 4 billion people live on less than \$1,500 per year, including more than a billion earning less than \$1 per day (in 2002, when the BOP model was introduced).

Prahalad and Hart's argument was that the 4 billion strong global BOP market is neglected by multinationals because either they see no opportunity, believing that anyone earning so little could never afford to buy their products, or they do not have any experience in how to do business in poor communities. They refer to the BOP as a multi-trillion dollar 'invisible opportunity'. It's a bit like the \$20 bill on the sidewalk that nobody picks up because, if it was real someone would have picked it up already. So too big business assumes that if there was money to be made in low-income markets, someone would have already exploited the opportunity.

The reason why the BOP markets have been underserved is that corporates from high-income countries have been blinded by numerous myths about poor people. Spotting inclusive value therefore requires that these myths are debunked. The first myth is that poor people don't have any money to spend on products. That's not true. They don't have much money, but they do buy products. The only difference is that they buy less of those products. For example, they may buy a single-serve sachet of shampoo, rather than a whole bottle.

The second myth is that the meagre needs of poor people are already being met by local enterprises. That may be true, but their needs are poorly met. Often the products they buy are poor quality and they pay a premium for them. For example, poor people pay more per unit of energy and for access to finance than middle-income consumers. And the third myth is that poor people won't buy branded products. In fact, many low-income consumers would rather buy brands they know and can trust, since the brand is a proxy for quality. It means the product is likely to last longer or perform better. Also, the customer may acquire some social status in their community by being linked with the brand.

And so, by rethinking production, packaging and distribution – and by earning small margins on huge volumes of sales – companies can, according to Prahalad and Hart, make 'a fortune at the bottom of the pyramid'. Meanwhile, poor communities also win: they get high quality products at lower prices, achieved through economies of scale and spreading of risk. In their seminal article in *Business + Strategy*, Hindustan Lever

(the Indian subsidiary of Unilever) and Grameen Bank (the microcredit pioneer started by Muhammad Yunus) are cited as proof-of-concept cases. And they certainly sparked off a tidal wave of BOP business models and experiments all around the world, which are tracked by the BOP Learning Network.

Prahalad and Hart were certainly not alone in their exploration of the BOP market. Another major stream of work came from the World Resources Institute (WRI) and their volume called *The Next Four Billion*, which still lives on through the website nextbillion.net.^[ii] The WRI's research was crucial in adding empirical evidence to the conceptual bones of the BOP. Based on access to the household income and consumption surveys of developing and transition countries, they were able to offer new and compelling perspectives on low-income communities worldwide.

In particular, they were able to draw on income data from 110 countries and standardised expenditure data from 36 countries across the globe. Their analysis started to answer key questions, like: How large is the BOP and what is its income by country and region? What is total market size of the BOP and consumers' ability to pay within a number of critical sectors, including water and sanitation, energy, IT/telecoms, healthcare, and financial services? What is nature of the penalty faced by BOP consumers in the form of higher prices, poorer quality goods and services, or lack of access to services? And what does the BOP penalty imply for needed policy reforms or opportunities for market rationalisation?

One of the criticisms that the BOP model received was that simply repricing and repackaging products so that poor people can buy and consume them is not likely to help them to get out of poverty. Responding to this critique, Stuart Hart, working with Erik Simanis, developed a BOP 2.0 protocol.^[iii] Whereas BOP 1.0 was perceived as "selling to the poor", BOP 2.0 was recast as "business co-venturing." Their reconceptualisation included elements such as entrepreneurship development, capability development, building the market base, deep dialogue and building shared commitment.

Another criticism of BOP value was that it ignored environmental impacts. What happens when a billion Indians or Chinese use single-use plastic sachets of shampoo or food and they end up in the environment? Are multinationals that try to make a fortune at the bottom of the pyramid also aiding and abetting a throw-away high-waste society? One need only look at the rivers and oceans of plastic in Asia to suspect that there is some truth to this accusation. Besides, many of the environmental solutions and eco-friendly products are unaffordable at for BOP consumers.

[i] Prahalad, C.K., Hart, S.L. (2002) The fortune at the bottom of the pyramid, *Strategy+Business* (26): 1-16.

[ii] Hammond, A.L. et al. (2007). *The next 4 billion: market size and business strategy at the base of the pyramid*. Washington, DC: World Resources Institute, International Finance Corporation.

[iii] Simanis, E. & Hart, S.L. (2008). *The base of the pyramid protocol: toward next generation BOP strategy*. Ithaca, NY: Center for Sustainable Global Enterprise.

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